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GOOD GOVERNANCE IN MINIMUM WAGE SETTING IN THE ERA OF REGIONAL AUTONOMY¹

I. INTRODUCTION

Under the government's decentralization program, the setting of minimum wages has been transferred to governments at the local district or kabupaten level. Under existing regulations the provincial government and each local district must have a wage council to determine minimum wages for their area. The wage council must include representatives from labor groups, employers and the government. Practice appears to vary across provinces. In general, provincial governments set a floor for the province while local governments have the option to set wages above the province floor for their area. Some provinces and local governments set wages for specific industries as well. Decentralization of this process has created a complex and confusing system of minimum wage setting across the country. This has also resulted in historically large increases in minimum wages over the last 2 or 3 years. Minimum wages were increased by 30-40% in many districts in January 2002. These increases have been controversial and in a number of provinces employer groups withdrew their support from the district wage councils (e.g., Jakarta).

Recent analysis from SMERU and Bappenas indicate that setting minimum wages too high can reduce competitiveness of the export sector, and lead to declines or slower growth in modern sector employment. The negative employment effects are particularly serious today

¹ Ibu Yanuarita Hendrani, research team leader and lead author, presented this paper at a SMERU/PEG conference in Bandung on December 17, 2002. The research was carried out by a research team of the Universitas Katolik Parahyangan Bandung in West Java Province under a grant from the Partnership for Economic Growth, a United States Agency for International Development (USAID)-funded project with the Government of Indonesia. We would like to thank Kelly Bird and Chris Manning for many invaluable suggestions and comments; Fransiska, Titik Anas and pak Daryono for useful information and Elivas and Gandhi for providing research assistance. The views expressed in this report are those of the authors and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

considering the relatively low economic growth environment. The negative effects of minimum wages tend to have greatest impact on groups vulnerable to poverty such as low educated workers and women. Minimum wage increases also reduce work opportunities for young adults, forcing them to work in the informal sector or become unemployed with all the attendant problems that come with youth unemployment such as crime. According to the national labor force survey, youth unemployment ranges between 26-27% in the major urban centers in 2000.

The problem

While the increases themselves have been controversial and their effects on employment have been discussed in the media, there has been very little discussion on the actual process for setting wages. This questions the level of good governance in the process, in particular, the extent and nature of public participation, transparency in determining the minimum wage, accountability to the public and building broad consensus for the policy and process. Poor governance in processes of this kind is conducive to misinformed decisions and easily captured by interest groups. In the context of the wage council, very little is known about how they determine the value of the minimum standard of basic needs (or KHM), which is a key input into the setting of minimum wages. For example, do the wage councils have guidelines for determining the relevant price for each item in the basket? Do they rely on the Central Statistics Office monthly survey of price changes, or do each party to the council present their own set of prices, and if they do, how are disputes over prices resolved? In addition, do the councils carry out or commission experts to assess the CPI (price index) and employment consequences of proposed wage increases? Perhaps just as important do the councils encourage other stakeholders to participate in the process and make submissions on wage proposal and whether all information is available to the public?

The purpose of this research is to investigate the extent of good governance in the wage setting process in a selection of local districts in West Java. In particular we are interested in the extent and nature of public participation, transparency in the process and accountability of the wage council, broad consensus and efficiency of the policy.

- By public participation we mean the extent and nature to which the various stakeholders (e.g., employers and labor) are involved as well as beyond those sitting on the council are consulted during the process.
- By transparency we mean what kind of information and analyses are undertaken to assess the impact of minimum wage increases on employment, prices and ultimately poverty, and the extent to which this information is made available to stakeholders.
- By accountability, we mean to whom is the wage council responsible, and to what extent can the public lobby for improvements in good governance in the process.
- Broad Consensus Oriented. Does the process and outcomes oriented to what is best for the whole society or long term perspectives for sustainable economic development?
- Effectiveness and Efficiency. Does the process produce results that meet the purpose of setting the minimum wage

The research involved a series of interviews with members of the wage council and focus group discussions with stakeholders such as employers (Apindo) and relevant labor groups in selected districts of West Java (Bandung, Bekasi and Bogor). In the following part the legal framework of the minimum wage setting in Indonesia is discussed, followed by the process of the minimum wage setting in the sampling areas and after assessing the findings recommendations and suggestions are made.

Briefly, the research finds that, in contrast to the tight controls over labor during the New Order period, decentralization of the minimum wage setting process has increased both union and employer awareness of the importance of negotiations. But due to deficiencies in representation of stakeholders, the process has not taken into account all factors normally used in deciding the minimum wage. As a result the process has diverted from its original purpose of setting a floor to protect those most vulnerable. Instead, the process leads to the setting of an average industry wage based primarily on negotiations over the KHM and wages in neighboring areas, disregarding other important economic factors. If such a process persists this could hinder the achievement of long-term economic goals.

II. LEGAL FRAMEWORK OF MINIMUM WAGE SETTING IN INDONESIA

1. The Definition of Minimum Wage

The concept of minimum wage in Indonesia is defined in article 1 point 1 Minister of Manpower Regulation No. 1/1999, as *'the lowest monthly wage in-which the components include a basic salary and a regular allowance.'* This definition differs from those used in other countries' legislation. For example, the definition of minimum wage in Mexico, which is described in Federal Constitution of Mexico, article 123, VI as:

*'the minimum wage to be received by a worker shall be that which is considered sufficient, according to the conditions of each region, to satisfy the normal needs of his living, education and honest pleasures, considering him as the head of family....'*² Or the definition used in

² See: **Minimum Wage Fixing, an International Review of Practices and Problem**, Starr, Gerald, International Labour Organisation, 1993, p. 3.

the USA, as described by Henry Campbell Black as '*such an amount as will maintain a normal standard of living, including the preservation of the health and efficiency of the worker*'³.

The Indonesian definition therefore does not explicitly make normative references to 'fair' wages or 'standard of living', as in some other countries like the USA and Mexico. Nevertheless, the Indonesian minimum wage regulation does incorporate references to standard of living through the criteria for determining the minimum wage, such as the basic minimum needs or KHM.

2. The Objective of Minimum Wage Fixing

The aim of minimum wage policy can be detected in the considerations of the Manpower Regulation No. 01/1999:

- There is a necessity to determine a minimum wage rate to initiate a *proper remuneration* for the workers so to raise worker's welfare, without ignoring changes in the company's productivity and progress, and the general economic conditions.
- There is a necessity to establish a realistic minimum wage based on the company's capability to pay, the conditions of the sector in which the company operates and the region where the firm is located.

Based on these considerations, it is clear that the aim of minimum wage fixing is not only to raise the prosperity of the worker, but also to warrant the betterment of company's productivity and to sustain the economic growth of the country. Therefore, within this concept we cannot consider raising workers' standard of living is the only goal of the minimum wage policy. We have to consider other aspects such the rate of unemployment, labor market conditions so that under adverse economic conditions freezing the minimum wage may be an option under the current framework.

³ See: **Black's Law Dictionary**, Black, Henry Campbell, West Publishing Co., 1979, p. 898

3. Types of Minimum Wage Setting Procedure

Minimum wage setting practices varies across countries depending on differences in their industrial relations systems, tradition of public policy decision making as well as in their size and stage of economic development. The variations appear essentially attributable to the degree of support given to minimum wage programmes by the government, and the representative of workers and employers immediately involved⁴. In general there are four types of minimum wage setting mechanisms used by countries⁵:

a. The key decision is taken by the legislature.

In this system, minimum wage decisions are viewed as having major economic implications and widely divergent views among stakeholders are difficult to reconcile. Therefore the minimum wage is set by means of a legislative process.

b. Executive authority decisions.

In this system, order, regulation or decree of the government or the minister of labour thus determines minimum wages. In some countries, the legislation grants the executive complete freedom regarding the decision making process. The nature and extent of consultations outside the government are left to the government's discretion and it is not an obligation of the government to do so. Usually this system prescribes that the minimum wage is set at cabinet level.

c. Board with powers of effective recommendations.

In some countries, the authority to set minimum wage is delegated to designated bodies (hereafter simply called Boards). In some countries the designated Boards are responsible for setting the rates, but the government is permitted to make modifications to the minimum

⁴ See: *ibid*, p. 61.

⁵ It is summarized from *ibid*, pp 61-72.

wage if it considers necessary to do so. The boards are usually tripartite: in addition to an equal number of representatives of employers and workers, they include independent members who may or may not be representatives of the government. If the independent members are not representatives of the government, usually they come from universities and the appointed person should understand labour matters and regulations⁶. The presence of independent members serves to ensure that final decisions are reached, as well as representing the public interest.

d. Boards with final decision making authority

Wage boards in some countries have been granted the final authority to fix minimum wages and other aspects of minimum wage policy. The government's role is restricted to being represented on the board and to make submissions, although, it is possible for the government to set guidelines for determining the minimum wages increase.

There are advantages and disadvantages of each mechanism. The first system, while democratic, is unwieldy. The outcomes may not always reflect the conditions of labor markets, but rather populist policies of politicians. The second mechanism, executive authority decisions, is the broadest in terms of the factors that can be taken into account when deciding on the minimum wage increase, but still the conditions of labor markets may be considered secondary in this system. The third system - wage council with powers to make recommendations - is a compromise between the legislature and executive. However, there is the possibility of 'capricious' behavior of wage councils as they are not responsible or accountable for their

⁶ It is rather different with the compositions of the wage commission in Indonesia, that include an equal number of representative of workers, employers and governments, and additional there are some appointed person from universities to be an independent member.

actions. The fourth system - wage councils with final decision-making powers - is the least open to political interference, although they can be captured by some interest groups.

The Indonesian system in the era of autonomy appears to be a combination of second and third types. The wage commissions at provincial and local levels are given an authority to determine the minimum wage rate and then recommend it to the government (the governor / the mayor or Bupati). The local governments then decide the minimum wage for their regions by issuing a decree.⁷

4. The Existing Procedure of Minimum Wage Setting in Indonesia in the Era of Regional Autonomy

Minister of Manpower Regulation number 1/1999 and 226/2000 establish the current framework for minimum wage setting. Based on these regulations, we can conclude:

- Governor of each region has an authority to determine the provincial minimum wage and city/district minimum wage. The city or district minimum wage should not be lower than the province's rate.⁸
- The decision for the province minimum wage shall be made 60 days before the date the minimum wage becomes effective, and the city/district minimum wage shall be determined 40 days before the date of the minimum wage becomes effective. The minimum wage rate will be effective on the 1st of January each year and shall be evaluated annually.⁹
- In determining the value of the minimum wage consideration must be given to:¹⁰
 - a. Minimum / basic living needs (known as KHM);

⁷ See article 8, paragraph (1) Manpower Regulation No. 226/2000.

⁸ See Article I paragraph 4 section Article 4 paragraphs (1) and (2) Minister of Manpower Regulation No. 226/2000.

⁹ See Article I paragraph 4 section Article 4 paragraphs (4), (5), (6) and (7) Minister of Manpower Regulation No. 226/2000.

- b. Consumer Price index;
 - c. Capability, growth and continuation of the company;
 - d. Rate of minimum wages in neighboring areas;
 - e. Labor market condition; and
 - f. Economic growth and per capita income.
- Governor shall decide the minimum wage for the city or regency based on the recommendation of the Regional Minimum Wage Commission. In deciding the amount of the minimum wage to be recommended, the Commission may consult relevant parties. Such recommendations may also be proposed through the Regional Department of Manpower¹¹.
 - The regional minimum wage in certain sectors shall be negotiated and agreed by Employer Associations and Workers' Unions. In case the sector does not have any Employer Association, bargaining shall be held at company level in the related sector.¹²
- The practice in deciding sectoral minimum wages various across provinces in Indonesia. Some provinces like North Sumatra, South Sumatera, Maluku, West Papua Irian, Bangka Belitung legislate separate minimum wages for certain sectors, while other provinces like Aceh, Batam, Banten, Jambi, West Java: Bekasi city, Tangerang district legislate only a general minimum wage¹³.
- The minimum wage shall be considered the lowest amount that can be paid by the employer. If companies are already able to pay higher than the minimum wage rate, they

¹⁰ See Article 6 paragraph (1) Minister of Manpower Regulation No. 01/1999.

¹¹ See Article I paragraph 5 Minister of Manpower Regulation No. 226/2000.

¹² See Article I paragraph 8 Minister of Manpower Decree No. 226/2000 jo. Article 11 Minister of Manpower Regulation No. 01/1999.

¹³ Details information can be found in **Penetapan UMP-UMK-UMS di Seluruh Indonesia**, *Yayasan Kesejahteraan Keluarga dan Pekerja Indonesia* bekerja sama dengan *PT. Kloang Klede Putra Timur*, 2002.

must not decrease or abate the wage paid to the workers¹⁴. The company wage rate will be as determined by the Work Agreement, Company Regulation or Collective Labor Agreement¹⁵. It is implied that the rate will be decided based on bipartite agreement between the union and the company. If a company cannot pay workers the minimum wage, the company must request for a waiver from the governor. Before granting the waiver, the governor will appoint a public accountant to audit the company's financial statements to assess the firm's capacity to pay minimum wages.¹⁶ Very few companies ever apply for a waiver as the process is arduous and uncertain (see SMERU, 2001).

In summary, the authority to decide minimum wages for local districts/cities rests with the provincial governor acting on the recommendations from Bupatis. The district minimum wage council makes a recommendation to the Bupati, who in turn submits it to the provincial governor. The provincial wage council considers these recommendations and then makes its recommendations to the governor. The governor then decides the minimum wage increase for that particular district based on these various recommendations. In the era of regional autonomy, the Bupati's recommendations carry significant weight in the governor's final decision. Nevertheless, the governor does have considerable discretion in deciding the final wage increase and exercises this discretion if the wage commission fails to determine minimum wage increase within the specified time frame. For example, the Governor of DKI Jakarta exercised considerable discretion over the minimum wage increase for 2002.¹⁷

The regulations do not explicitly define the role of worker, employer or government representatives (as member of tripartite board) or the independent parties (i.e. university

¹⁴ See Article 17 Minister of Manpower Regulation No. 01/1999.

¹⁵ See Article 18 Minister of Manpower Regulation No. 01/1999.

¹⁶ See Article I paragraph 10 Section Article 20 paragraph (2) Minister of Manpower Regulation No. 226/2000.

representatives) in determining the minimum wage increase. Therefore the processes used by wage councils and tripartite boards vary across provinces. The lack of clear rules proposing minimum wage increases by the tripartite board and minimum wage commission is one weakness of the Indonesia regulation.

III. THE PROCESS OF MINIMUM WAGE SETTING IN WEST JAVA

A. Participation

1. Based on Law No 22 and 25 of 1999, the minimum wage setting process is decentralized to the provincial level and to the City / district level. For some provinces, the decentralization of minimum wage setting has gone only to the provincial level. For others, minimum wage setting is also done at the city and district level, especially in those areas that have large industrial centers. As was mentioned earlier, West Java is one province where minimum wage setting has been delegated to local governments in industrial centers. Others include East Java and Riau (i.e., Batam has its own minimum wage). For the purpose of this report we focus on the West Java wage setting process.
2. At the provincial level, the wage setting process is facilitated by Dinas Tenaga Kerja (DISNAKER), as part of the provincial government specializing in manpower. At the city/district level, acting as a facilitator is a section under the local government in charged of manpower. The name of this section varies: Disnakertrans, Disnakersos, Dinas Tenaga Kerja dan Pemakaman etc. The task of determining the minimum wage is in the hand of Governor (at the provincial level) and Bupati or Walikota (at the local level). The amount of the minimum wage they decide is based on the recommendation from a Tripartite Council called

¹⁷ See Article I paragraph 4 section Article 4 paragraphs (4), (5), (6) and (7) Minister of Manpower Regulation No. 226/2000.

Dewan Pengupahan or in some regions called Lembaga Kerjasama Tripartite or Komisi Pengupahan - Dewan Ketenagakerjaan Daerah (DKD). This wage council was formed by the Governor (at the provincial level) or Bupati / Walikota (at the local level). The council consists of Union officials, representatives from employer groups and representatives from the government. Some local councils also have representatives from Universities located in the area. In Kota Bandung, for example, the council has 1 representative from UNPAD and 1 representative from UNPAR, though the former was not active. The Kabupaten Bandung council has 1 representative from UNJANI. The councils of Kota and Kabupaten Bogor do not have any representatives from Universities, but Depok Council and Bekasi Councils each has one academician as a member. The council decides the number of representatives from each party; each party (non university) is represented equally. At the provincial level, the government representatives come from Disnaker, the local department of Industry and Trade, the local department of Finance and from the Statistics agency (BPS). At the local level, the government representatives come from various sub-dinas related to manpower, industry, trade and industry and also from BPS.

3. Employers are represented by APINDO (employers organization specializing in manpower affairs); whereas the union party is represented by local unions. Minister of Manpower and Transmigration decision number 201/2001 requires unions to have at least 10 plant level working units (Pengurus Unit Kerja) or 2500 members to be able to send a representative in the local tripartite council. The number of representatives in the council varies from one area to another. Thus, in Kota Bandung each party is represented by 7 persons, in Kabupaten Bandung 10 persons, Kabupaten Bogor 11 persons, Kota Bogor 6 persons, Depok 9 persons. And Bekasi, both kota and kabupaten, 7 persons. The majority of the unions that send

representatives to the local tripartite council have not met the above “representation” requirement. Both Apindo and the larger unions that fulfill the 'representation' requirement can tolerate the situation as they also hope that the more unions involved in the process the less they become a target of protests due to dissatisfaction.

4. Several non-active members of APINDO in Bandung have raised criticisms of both employer and unions sitting on the tripartite committee. They question whether the union representatives truly represent their constituencies because only a few of these unions are actually chaired by workers or former workers. This appears to be the case for union representatives in Kota / Kabupaten Bandung and Bogor, although the unions in Bekasi stated that most of the union care takers are also workers in private companies. One of the FGD union participant in Bekasi was given permission from his company to meet us during working hours. ‘Most companies are not as permissive,” he said. The non-worker union chairmen on the other hand think that they have done a proper thing since in that way they could help workers concentrate on their jobs. Besides, these non-workers chairmen also believe that the majority of workers lack of organizational, bargaining skills and education that they cannot deliver their aspiration well. Criticisms also go to APINDO representatives in the councils. They are usually first or second line managers and are not the main decision makers. The reason why APINDO was not represented by main senior company officials is because the minimum wage bargaining process usually takes a few months and they do not have such time to devote to the process. However, from the 2002 minimum wage experience, APINDO Bogor realized that this problem of under-representation effected employer interests significantly. The 2002 minimum wage was very unfavorable for employers. For the forthcoming minimum wage, which is currently in process, the Bogor

companies decision makers are more seriously involved. Some general managers are also on the list of the 2003 council members in Bekasi. They are also currently active in doing market cost of living survey for the 2003 minimum wage.

5. Some FGD participants from both employer and union sides do not like the local government to be represented equally on the council. Both groups are concerned that the government representatives would unfairly favor the other party especially when decision has to be done through voting. The interviewees from Pemda and Disnaker rejected this accusation, saying that the role of local government on the council is only as a facilitator. The unions from Bekasi have no worry about the government representatives in the council: “They are more and more withdrawing from their earlier dominant role in this matter” “Both unions and employers representatives are very outspoken during the council meetings and the government representatives more or less leave us alone to reach a compromise,” they said. But other FGD participant from the employers side said: “why should they be there if they do nothing?” “Without their involvement, isn’t it more like a collective bargaining mechanism?”
6. Since minimum wage has to be announced 60 days (by the governor) or 40 days (by Bupati / Walikota) before it is effectively binding, the councils have to start the process in August / September. The procedures for deciding the 2001 minimum wage in West Java were as follows: based on the market cost of living survey, the Kota / Kabupaten Wage council calculated the minimum living needs (KHM) and decided the Kota / Kabupaten Minimum Wage. The result was submitted to Dinas Tenaga Kerja Kabupaten / Kota which further submitted it to Bupati / Walikota. The Bupati / Walikota then submit it to the Governor and the Governor submitted the recommendations to the Provincial Wage Council. The

Provincial Wage Council evaluated the recommendations and submitted the final results to the Provincial Dinas Tenaga Kerja to be reported to the Governor. After consulting the Minister of Manpower the Governor announced the provincial and Kota / Kabupaten minimum wages. Prior to the Regional Autonomy Law, the minimum wage for each Province was announced at once by the Minister of Manpower. The procedures were as follows: Kandepnaker Seksi Hubin Syaker (a section of Department of Manpower at the local level) did a monthly market survey to calculate the KHM. After consulting BPS it reported the results to Kanwil Depnaker Bidang Hubin Syaker (at the provincial level) which then tabulated the Kota / Kabupaten KHM. After consulting BPS, it reported the result to Depnaker Pusat (Department of Manpower). After tabulating the KHM from all provinces and consulting BPS it reported the final results to the Minister of Manpower to be use as a consideration in deciding the Provincial Minimum Wages.

7. Why the government of West Java decentralized the process to Kabupaten and Kota?. Some FGD participants explained that in 2001 there were big worker demonstrations in some Kota and Kabupaten against the 2001 minimum wages increase set by the Governor at the time. Apparently the governor found it difficult to cope with the problem and issued a circular letter in that year, delegating the power to local governments (Kota and Kabupaten).

B. Transparency

1. Among the six factors that have to be considered in determining the minimum wage (based on Per-01/Men/1999), in all sampling areas only the KHM and minimum wages in the surrounding areas were the main considerations for determining the local minimum wage. To calculate the minimum wage using the KHM criterion, wage councils refer to the

Minister of Manpower Decree no. Kep-81/Men/1995 regarding the components of minimum living needs (KHM). The decree defines the living needs into 4 categories: Food, Clothing, Housing, and miscellaneous services. There are 43 items all together, thought to be sufficient for a single worker. Selected members of the wage council from both employer and union groups carry out a market price survey to determine the value of the KHM. The group visits five local traditional markets and survey prices of the 43 items listed in the KHM. Prices of items in miscellaneous services such as education and transportation are collected separately. Employers and union members go to the same market on the same day, but they may visit different sellers. This often results in different prices that lead to disputes between the parties.

2. All Apindo representatives in the sampling areas would like to include the four other factors supposedly required to determine the minimum wage, but so far they have not been able to convince the councils to adopt them. The following reasons for only using the KHM were given to us by the Disnaker, Disnakertrans, Unions, employers and academicians council members:

“We cannot yet give workers a wage that covers their minimum living needs, why should we talk about other criteria” (*academician*)

“ KHM is a measure that can approach the real needs of workers the most” (*academician*)

“It is based on Minister of Manpower instruction” “Minister Jacob Nuwa Wea said that the minimum wage should be at least the same as the KHM” (*employer*)

“Other criteria were not included, maybe because of the difficulty in finding the supporting data and the difficulty in getting the right experts to explain them” (*Disnaker*)

“All parties including the government party in the council could not explain plainly the relations between the other 4 factors with the minimum wage, should they reduce or increase minimum wage? There is no academic formula that relates those other factors with minimum wage.” (*union*)

“Even the employers could not explain as simple question as: what are the impacts of a 10% increase of minimum wage on employment etc?”(*union*)

“The unions understand the impacts of those other factors and we have shown sufficient data. They just do not want to consider other factors if these factors would reduce the minimum wage.”(*employer*)

“We have not built a system that could be agreed by all parties in this respect”(*union*)

3. The Minister of manpower Decree No. Kep-81/Men/1995 provides rough guidelines regarding the quality and magnitude of each item in the KHM. There are usually long and rough arguments between employers and union groups before, during and after the market survey. Some areas like Kabupaten Bandung and Jakarta could not reach any agreement because of this. Learning from the 2002 minimum wage setting process, the wage councils of Kota and Kabupaten Bogor plus Depok decided their own version of standard quality of each item in the KHM components. Using this standard they reached agreement for KHM value faster and easier. APINDO Bogor even sponsored the councils to purchase the items used for the minimum wage calculation. The values of KHM that they found in the three areas were sufficiently lower than the previous year KHM. (Ranging from Rp 441000,- to Rp 461 000,- as compared to Rp 576 000,- for last year). However the unions want the KHM values be reevaluated due to the recent Minister of Manpower circular letter no. 889.HK.01.32.2002, dated on September 10, 2002, containing more detailed quality

description of KHM items. For example: the quality of coffee was not defined in Kep-81/Men/1995, but is now defined as local or unbranded coffee. Other items such as cooking pan, frying pan and other utensils are now defined by their brands. Both Bekasi APINDO and Unions were happy about this improvement as it provides more certainty over what should be included in the KHM and therefore less argument. Some items would surely inflate the value of KHM such as housing and fruits. Previously most councils defined the value of housing component by dividing the price of a type 21 house by two (one house for two persons). In the new definition this value is included wholly. For fruits, now they have to include local apple along with papaya and banana, which is of course more expensive than just papaya and banana.

4. The next factor that invites disputes between unions and APINDO is the inflation rate. How to incorporate the next year inflation rate that is not yet known? The Bekasi wage council has a formula: agreed survey results + the remaining months (till December) projected inflation rate + the following 6 months projected inflation rate. With this formula there is a double count. The percentage increase in the KHM from October last year to October this year, then projected increase in the CPI over the following year. In fact the increase in KHM in the previous year should be reflected in this year KHM and not next years KHM. Moreover, if used widely across provinces this formula could create significantly rigidities in wages and contribute to a wage-inflation spiral thereby undermining the government's macro-economic policy of price stability.
5. The last big factor that determines the local minimum wage is the neighboring minimum wage. The high minimum wage set by a neighboring city, especially if this city has similar economic conditions will invite jealousy, followed by protests and requests for reevaluation

of the minimum wage by unions, even though the minimum wage has been agreed. Unions in Kabupaten Karawang protested to their Bupati after the Bekasi minimum wage was announced and happened to be higher than their agreed one. Likewise, Jakarta always wants their minimum wage to be higher than Bekasi. They tried to slow down the minimum wage setting process so that they could get the Bekasi results first. In 2001, the Bekasi wage council agreed to a minimum wage of Rp 562 000. But after the Jakarta Governor announced the Jakarta minimum wage of Rp 591 000, the Bekasi local government revised its minimum wage up to Rp 575 500. The dissatisfaction moved further to Bandung, Kota and Kabupaten, although the Bupati and Walikota did not change the value of the minimum wages. In the previous years Bandung had the same minimum wage as BOTABEK (Bogor, Tangerang and Bekasi). These comparisons can lead to very trivial arguments. For example, since Kabupaten Bandung wage council could not reach a compromise, the Bupati decided the value of Kabupaten Bandung minimum wage at Rp500 lower than Kota Bandung. Some companies are located in the same street but the administrative demarcation separates them into Kota and Kabupaten. Workers there often wonder why their wages should differ by Rp500 per month (or about 6 cents).

C. Accountability

1. Some of the FGD participants think the wage council member parties are responsible to the people they represent. Thus, both union representatives and APINDO parties will try hard to bring their party mission during the minimum wage setting process. Bogor APINDO was dissatisfied with last year minimum wage round, but could only blame their representatives and choose better persons for the 2003 wage council. Though the focus for calculating minimum wage is KHM, each party already has a target for the following year minimum

wage. APINDO Bogor and Bekasi, for example want zero growth of the minimum wage next year. APINDO Bandung limits the growth up to the inflation rate whereas the Bandung unions mostly want a 25% increase to catch up with wages in Jakarta. If the council could not decide the value of KHM and let the Bupati / Walikota decides, some participants thinks that Bupati /Walikota should be responsible to them if they are not pleased. Some said that they would do a demonstration and some would report to DPRD. The DPRD would then invite the Bupati or Walikota to explain the basis of their decision. If agreement could be reached by council members, as some participants said, it would be unlikely that Bupati / Walikota would decide a lower value because they would not want the risk of being protested by workers.

2. To avoid having to be responsible when the minimum wage outcome is unsatisfactory, unions, APINDO and the government take the following strategies:

APINDO: consolidate meetings with other Apindo in the neighboring areas, before and during the minimum wage setting process.

Union: share the council seats with smaller-size unions. Bekasi union council members even let several representatives from small unions to join the council meetings. They were given the right to speak, but not the right to vote.

Government: show that the government representatives do not take sides and encourage both parties to reach agreement

IV. ASSESSMENT OF THE MINIMUM WAGE SETTING PROCESS

From the research finding in part III, the minimum wage setting processes in the sampling areas have tried to include the main stakeholders and in some cases representatives of the public

interest (in this case government and academic representatives). As most FGD participants realized, despite its reasonable composition, council members often do not meet the expected “representation” requirements such as supported by enough number of voters in the area, having direct knowledge and competence in the area. What often invites questions is the role of the third party in the wage council. Some are happy that this group plays a passive role on the council, while some others think that since they represent the general public interest, they should voice what they think is best for society in this matter. The role of the third party representatives is not always clear, but most FGD participants see them as representing the general public interest, beyond the immediate interests of workers and employers. The government representatives presumably would be reflecting local government development objectives as indicated by their development plans. In any case, the public representatives should provide a broader perspective such as an assessment of the impact a particular increase may have on the job market or poverty. They should also represent those that can not be feasibly included on the council such as the unemployed and informal sector workers, as these workers can be adversely affected if minimum wages reduce the availability of jobs in the modern sector.

From the transparency aspect, the councils have tried to be transparent in calculating the minimum wage using KHM as the basis. However, as mentioned earlier many of the items in the KHM do not have clear descriptions regarding quality and as council members admit, this often produces different prices and therefore gives rise to disputes over the calculation of the KHM. Other considerations or criteria as mentioned in Kep-81/Men/1995 are ignored for the reasons that have been stated in part III. This is not acceptable if these other criteria represent the interest of a larger group of people not included in the process. The problem is, to use these criteria, knowledge of economics and a high degree of independence and neutrality with regard to

employer and union parties' interests are needed. These required characteristics of third party members are mostly not met at the local / district level.

With regard to accountability, most participants think that Bupati / Walikota and Governor who give final decision of the minimum wage are the most responsible persons. There is no clear procedure for the parties to air their dissatisfaction or raise questions about the minimum wage decision. The unions often go their traditional way, which is demonstration. Reluctant to be demonstrated against and (we guess) also the inability to give reasonable arguments about their decision, Bupati / walikota and Governor mostly follow the interest of the most vocal party, which is union party.

As for whether the results obtained by the wage councils effectively meet the purpose of setting the minimum wage, we should take a look at the following role and scope of the minimum wage.

The Role and Scope of Minimum Wage

Starr (ILO, 1993) identified 4 basic roles of minimum wage, namely:

1. To protect the low-paid workers who are considered in a vulnerable position (weak bargaining position) in the labor market.
2. To ensure the payment of what may be termed "fair" wages. Considerable importance is attached to having a common rule for individual industries or occupations in order to promote the application of the principle of equal pay for equal work and to reduce areas of industrial conflict.
3. To provide a basic floor for the wage structure. It is viewed as an instrument for making a modest contribution to the reduction of poverty by providing almost all workers with safety net protection against unduly low wages.

4. To be used as an instrument of macro economic policy for achieving broad national objectives such as economic stability, growth and major improvements in the distribution of income.

The first two roles are commonly associated with industry minimum wage, while the last two are categorized as the general minimum wage system of broad coverage. Except for the second role, the rest are intended to lift the income of the lowest income group in the society. The problem then is which groups should be considered as the low- income earners. In Indonesia, low-income earners are those working in rural sector activities, and those working in the informal urban sector. These groups alone constitute more than 70 percent of the total work force and more than 50 percent of workers in the urban centers. Their wages range from only in-kind payment to mostly below the minimum wage. These people will be more than willing to work in a formal sector job that gives sufficiently higher wage though perhaps, the wage is below the official minimum wage. Yet, their access is denied if high minimum wage limits the number of firms that can operate under the official minimum wage. The wage profile of workers at district level is rarely published. We therefore try to tabulate the wages of laborers who received monetary remuneration from SAKERNAS data of the year 2000 (see Annex).

From the table, the median wages for Kota and Kabupaten Bogor, Bandung and Bekasi are respectively Rp340 000, Rp325 000, and Rp450 000. The minimum wages set for the following year were also around these values. Thus, the minimum wage setting process may have diverted from its initial intention of setting a floor for those at the bottom of the wage distribution. This raises the question of the effectiveness of the process. If the data are correct, more than 30% of wage earners (excluding the self-employed and in-kind paid workers) are paid below minimum wage.

With regards to Broad Consensus Orientation, there are two actors in the minimum wage setting process and which have opposite interests. Good governance requires mediation of different interests in society to reach a broad consensus on what is best interest of the whole society. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such development. In the minimum wage setting context, broad and long-term perspective could mean sustainable employment growth that would benefit not only those currently employed, but also creation of more and more good jobs for many people. It can also mean better quality of industrial relations, continued productivity increase or stable economic condition. Pursuing these goals may make one of the groups less able to fulfill its interest in the short run. But in the long run it is expected that both parties gain. To achieve the above objective, the alternatives or ways to reach them and how they relate to the process they are involved in should also be understood by all parties. In Indonesian case, the regulation covers some aspects of the above broad objectives, but the research indicate that how these could be achieved and their relation to minimum wage are not quite understood. It should be the tasks of the third party in the council (government and university representatives) to explain, mediate and direct the process towards the above objectives. In Indonesian case, the resistance towards the effort to bring the above long-term objectives is due to the bad past experience of workers under Suharto regime. It may take some time to build trust between workers and employers.

V. RECOMMENDATIONS

The decentralization of minimum wage setting process down to the district level in West Java and its performance in meeting expectations of the various interest groups has been mixed. Some

stakeholders are happy to be able to participate and make effective recommendations for their standard minimum wage, while others regard this process as time consuming and futile. Most obvious results that outsiders can observe are the minimum wage hikes and rivalries amongst neighboring districts and cities to have comparable minimum wages. From the academic point of view, the last two results are viewed as unfavorable outcomes if the above roles of minimum wages become reference.

What really has happened is that the minimum wage setting process has become one of industry wage negotiations between employers and unions rather than setting the minimum wage as traditionally done. In other words, the process may have diverted from its initial intention of setting a floor to protect those at the bottom of the wage distribution.

Therefore the research team offers the following recommendations:

1. The government should reassess the role of the minimum wage. If the above roles as identified by ILO become a reference, the regional wage profiles of workers as well as the self-employed should be consulted to determine which groups or sectors benefit from the policy and which ones lose. A more appropriate balance between providing a safety net for wage employees at the bottom end of the distribution and creating more 'better' jobs in the formal sector needs to be achieved. The minimum wage should protect those at the bottom of the wage distribution rather than be used to set industry-wide wages, as it appears to be doing now. Parties - unions and employers - should be encouraged to use collective bargaining at the firm level to set wages against productivity growth.
2. In the governance literature, the more stakeholders that take part in the decision-making process the better the outcomes. In the minimum wage setting process and in a narrow scope the stakeholders are the employers and workers (unions). But since the outcomes affect wider

part of the society such as those that can not find jobs in the modern sector, there should be also be people capable of representing these wider groups. Government and university representatives are thought to be suitable for the task. But the task requires knowledge of the working mechanism of the economy besides a neutrality / independency character. These criteria are rarely met especially at the local / district level. It is best therefore to decentralize the process up to the level where these representatives available.

3. Timely and reliable data on the other criteria (local labor conditions) for setting minimum wages are not available. Since other criteria beyond KHM can only be used if supported by reliable data, it is the task of the related government department and university researchers to collect the necessary data for the analysis.
4. It is necessary to make a regulation concerning the roles of the various participants on the tripartite board and Wage Commission. In particular, the role of the government representatives should be clarified - do they represent the wider public interest or act as facilitators. Recommended option is to define government representatives as a party to the negotiation (not only as a facilitator) who represents the public interest (such as concern for long run economic development, distribution of income, etc.).
5. Many participants stated that the process is timely and resource intensive. Under current regulations parties must carry out this process every year. Many countries do not revise their minimum wages every year for this reason and to maintain macro-economic stability. One important recommendation would be to limit minimum wage increases to every two years beginning in 2004. In the medium-term, over the next 12 months, some possible changes could be investigated regarding the basic minimum wage setting process:

- *Simplify the KHM*: The government could set up team to re-examine the KHM as a basis for setting MW. The main issue is simplifying the ‘needs-based’ index and connecting with other needs indicators such as employment conditions, international competitiveness etc.
- *The Minimum Wage Process Nationally and across Regions*: A mechanism could be established for the Central Government to play a role in issuing guidelines each two years on general wage increases, taking into account cost of living increases and labor market conditions.

Annex

Descriptive Statistics of wages of workers in Bogor, Bandung and Bekasi*)

Variable	N	Mean	Median	TrMean	StDev	SE Mean
WBGR	309	433349	340000	394639	352799	20070
WBDG	410	395801	325000	376299	249965	12345
WBKS	209	669670	450000	588762	610106	42202

Variable	Minimum	Maximum	Q1	Q3
WBGR	45000	4000000	250000	500000
WBDG	15000	1500000	229500	500000
WBKS	100000	5000000	300000	805000

Source: SAKERNAS 2000, BPS

Where,

WBGR ; Wage (monetary remuneration) for workers in Bogor

WBDG ; monetary remuneration for workers in Bandung

WBKS : monetary remuneration for workers in Bekasi

Mean : the average value

Median : if there are n observations, the median is the (n+1)/2 ordered value

Trimmed Mean: the mean value if the 5% smallest and largest values are removed

Standard Deviation: if a column contains x1, x2 Xn with mean value

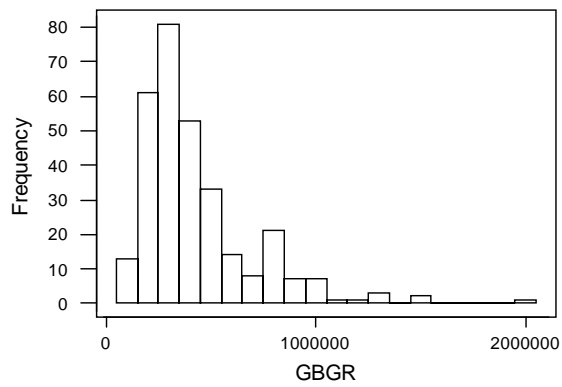
$$\bar{x}, \text{ then, } stdev = \sqrt{\sum (x - \bar{x})^2 / (n - 1)}$$

Standard Error of Mean (SEMean): StDev / \sqrt{n}

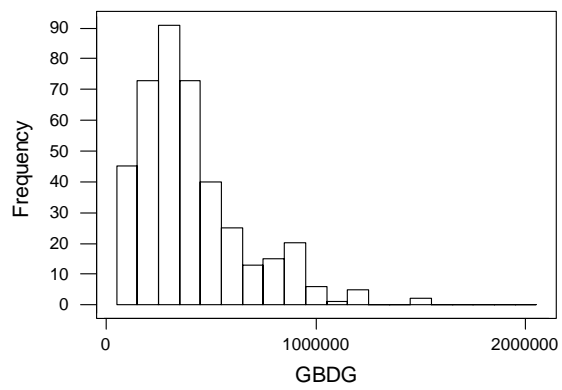
Quartile : Q1 (first quartile) is the value of observation at position (n+1)/4

Q3(third quartile) is the value of observation at position 3(n+1)/4

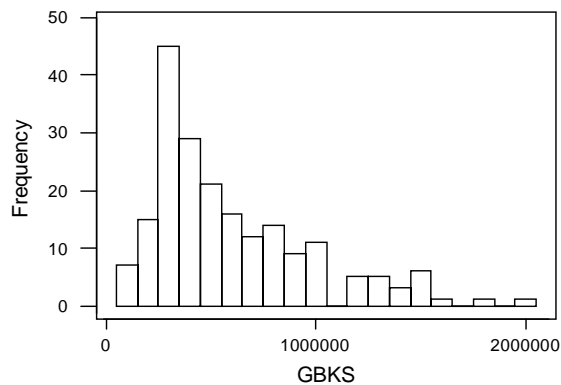
*) The samples include monthly monetary remuneration of non self-employed workers in all sectors.



(a) Wage Distribution in Bogor



(b) Wage Distribution in Bandung



(c) Wage Distribution in Bekasi

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